

Message Text

LIMITED OFFICIAL USE

PAGE 01 BONN 09843 01 OF 03 101810Z
ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-07
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 IGA-02 DODE-00 PM-04 H-01
L-03 PA-01 PRS-01 FEAE-00 AGR-05 HUD-01 /106 W
-----101827Z 022851 /41

R 101800Z JUN 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8974
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION USBERLIN
USMISSION NATO
USNMR SHAPE
AMCONSUL FRANKFURT
AMCONSUL MUNICH
AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL HAMBURG
AMCONSUL STUTTGART
CINC USAFE RAMSTEIN
CINC USAREUR HEIDELBERG
CINC EUR VAIHINGEN

LIMITED OFFICIAL USE SECTION 01 OF 03 BONN 09843

USEEC, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652:N/A
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BONN 09843 01 OF 03 101810Z

TAGS: EFIN, GW
SUBJECT: WHERE IS THE BUSINESS CYCLE HEADED?

1. THE GREATLY DISPARATE INTERPRETATIONS OF THE ECONOMIC OUTLOOK IN GERMANY WERE EVIDENT IN REPORTS RECENTLY PUBLISHED BY THE COUNTRY'S TWO LEADING INDEPENDENT RESEARCH INSTITUTES, IFO OF MUNICH AND DIW IN BERLIN.

THE DOWNBEAT TONE OF THE FORMER AND THE BASICALLY UPBEAT FLAVOR OF THE LATTER COME OUT CLEARLY IN THE FOLLOWING FREELY TRANSLATED EXCERPTED PASSAGES FROM THEIR RESPECTIVE PUBLICATIONS:

A. IFO, WHICH MAINLY BASES ITS FINDINGS ON ATTITUDINAL SURVEYS OF NEARLY 4000 OF THE LARGEST MANUFACTURERS IN THE FRG, OBSERVED: "NOTHING IN THE PREVAILING SITUATION IN INDUSTRY SUGGESTS THAT THE INITIAL DYNAMIC OF THE UPSWING COULD BE REACHED AGAIN. AS OF THE THIRD QUARTER 1976 THROUGH THE FIRST QUARTER 1977 OUTPUT HAS HARDLY INCREASED. CAPACITY UTILIZATION IN APRIL, AT 80 PERCENT, WAS NOT ANY BETTER THAN AT THE SAME TIME A YEAR AGO. THE DEVELOPMENT OF ORDERS SINCE LATE SUMMER 1976 IN GENERAL POINTS RATHER TO REDUCED CHANCES FOR SALES INCREASES. APPRAISALS OF BUSINESS PROSPECTS BY INDUSTRIAL FIRMS PARTICIPATING IN THE IFO TEST HAVE SHOWN A TREND POINTING TO WORSENING EVER SINCE THE MIDDLE OF LAST YEAR; DURING THE FIRST MONTHS OF THIS YEAR RESPONSES POINTING IN THIS DIRECTION HAVE INCREASED APPRECIABLY.

"ON THE WHOLE, THE CURRENT SITUATION IN INDUSTRY IS NOT SUCH AS TO INITIATE A PROCESS OF CAPACITY EXPANSION. THE RESULTS OF THE MOST RECENT IFO INVESTMENT TEST, HOWEVER, SUGGEST THAT REAL INVESTMENT IN EQUIPMENT IN INDUSTRY DURING THE CURRENT YEAR WILL NEVERTHELESS MATCH OR SLIGHTLY EXCEED THE 1976 LEVEL. OUTPUT OF THE MANUFACTURING SECTOR AS A WHOLE IN 1977 IS LIKELY TO GROW BY ONLY 3-4 PERCENT, I.E., ONLY BY ABOUT HALF AS MUCH LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BONN 09843 01 OF 03 101810Z

AS IT DID IN THE PRECEDING YEAR, WHEN GROWTH CAME TO 7 PERCENT.

"WHEN VIEWED AGAINST THE BACKGROUND OF CURRENT PRODUCTION LEVELS, ONLY A VERY SLOW UPWARD TREND IS TO BE EXPECTED FOR THE MANUFACTURING SECTOR AS A WHOLE (IN THE COURSE OF 1977).

"NO IMPORTANT BOOST TO GROWTH SHOULD BE EXPECTED FROM DOMESTIC INVESTMENT DEVELOPMENTS."

B. DIW IN AN ARTICLE WHICH DETAILS ITS CALCULATIONS OF FIRST QUARTER REAL GNP GROWTH (THEY SAY IT IS UP 4.6 PERCENT IN SEASONALLY ADJUSTED ANNUAL RATE TERMS) HAD THIS COMMENT ON THE OUTLOOK:

"DURING THE SECOND QUARTER 1977 OVERALL ECONOMIC GROWTH WILL PROBABLY ACCELERATE. ESPECIALLY PRIVATE CONSUMPTION WILL EXERT STRONGER IMPULSES THAN IN THE

FIRST QUARTER OF 1977 SINCE THE RETARDING INFLUENCES
WILL DISAPPEAR. AT ANY RATE, RETAILERS HAVE TURNED
IN FAVORABLE REPORTS OF LATE. AS FAR AS INVESTMENT IN
EQUIPMENT IS CONCERNED, A STEADY, THOUGH MODEST UPWARD
TREND MAY BE ANTICIPATED. CONSTRUCTION DURING THIS
PERIOD WILL NOT HAVE A RETARDING IMPACT AS YET, SINCE

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BONN 09843 02 OF 03 101817Z
ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-07
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 IGA-02 DODE-00 PM-04 H-01
L-03 PA-01 PRS-01 FEAE-00 AGR-05 HUD-01 /106 W
-----101823Z 022948 /41

R 101800Z JUN 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8975
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION USBERLIN
USMISSION NATO
USNMR SHAPE
AMCONSUL FRANKFURT
AMCONSUL MUNICH
AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL HAMBURG
AMCONSUL STUTTGART
CINC USAFE RAMSTEIN
CINC USAREUR HEIDELBERG
CINC EUR VAIHINGEN

LIMITED OFFICIAL USE SECTION 02 OF 03 BONN 09843

CONSTRUCTION ACTIVITY WILL BE STIMULATED BY THE JUNE
TERMINATION DATE FOR THE INVESTMENT BONUS AND SINCE LOW
INTEREST LEVELS STRENGTHEN PROPENSITY TO INVEST IN PRI-
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BONN 09843 02 OF 03 101817Z

VATE HOMES. EXPORTS WILL CONTINUE TO EXERT A STIMULAT-
ING IMPACT ON THE ECONOMY; IN FACT, MOST RECENT (EXPORT)
ORDER DEVELOPMENTS SUGGEST ACCELERATED EXPANSION. REAL
GNP, ON A WORKING DAY AND SEASONALLY ADJUSTED BASIS,
WILL EXCEED THE FIRST QUARTER 1977 LEVEL BY TWO PERCENT
(I.E., 8 PERCENT ANNUAL RATE); LAST YEAR'S SECOND QUAR-
TER LEVEL WILL BE EXCEEDED BY ABOUT 3.5 PERCENT.

"FOR THE FIRST HALF 1977 THIS WOULD MEAN A REAL GNP
EXCEEDING THAT OF THE CORRESPONDING PREVIOUS YEAR'S
PERIOD BY ABOUT 3.5 PERCENT. THE FACT THAT THIS
GROWTH RATE IS SO LOW IS ATTRIBUTABLE PARTIALLY TO
CALENDAR INFLUENCES AND PARTIALLY TO THE RAPID PACE
OF EXPANSION (SEASONALLY ADJUSTED) DURING THE WINTER
SEMESTER 1975/76 WHICH WILL NOT BE MATCHED DURING THE
CURRENT PHASE OF THE UPSWING. DURING THE SECOND HALF
OF 1977, BY CONTRAST, THE GROWTH RATE WILL BE INFLUE-
ENCED BY A BASE EFFECT IN THE OPPOSITE DIRECTION: IF
THE RESTRAINED DEVELOPMENT OF THE SECOND HALF OF 1976
WILL NOT BE REPEATED, THEN A CLEARLY HIGHER GROWTH
RATE IS LIKELY TO BE REGISTERED. "OPTIMISTIC" PROGNOSSES
OF GNP GROWTH IN 1977 REMAIN VALID, DESPITE THE SEEMING-
LY UNFAVORABLE RESULTS OF THE FIRST HALF."

2. IFO'S "BUSINESS SITUATION" INDICATOR WHICH HAS A
FAIRLY GOOD RECORD OVER THE PAST 15 YEARS AS A PREDICTOR
OF INDUSTRIAL PRODUCTION GROWTH TURNING POINTS (SEE
PAGE 11 IFO SCHNELLDIENST, 25 MAY 1977) DIPPED SEVEN
POINTS IN APRIL. THIS IS THE LARGEST MONTHLY DECLINE
IN THIS INDICATOR SINCE THE SUMMER OF 1974 - THE BE-
GINNING OF THE RECESSION.

3. ANOTHER IFO INDICATOR, THE "BUSINESS CLIMATE" INDEX,
WHICH SUBSUMES THE FOREGOING ALONG WITH OTHER SURVEY
RESULTS ON ORDERS, EXPECTATIONS, INVENTORIES, ETC., CON-
TINUED TO DROP IN APRIL FOR THE FIFTH STRAIGHT MONTH.
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BONN 09843 02 OF 03 101817Z

THIS SERIES, UPON WHICH IFO PLACES HEAVY WEIGHT IN ITS
ANALYSIS, REFLECTS THE FOLLOWING DEVELOPMENT:

BUSINESS CLIMATE INDEX

1974 (1) 1975 1976 1977

JAN	183.6	163.6	195.6	189.6
FEB	183.8	163.8	194.8	185.8
MAR	185.5	161.5	196.5	183.5
APR	184.0	163.2	197.2	180.2
MAY	182.4	160.5	197.5	
JUNE	181.6	161.7	198.7	
JULY	180.5	167.6	198.6	
AUG	178.2	171.0	195.0	
SEPT	170.4	180.3	197.3	
OCT	171.5	187.5	194.5	
NOV	170.3	194.3	196.3	
DEC	167.2	195.5	194.2	

(1) 1974 DATA NOT PUBLISHED; EMBASSY OBTAINED COMPUTER
PRINTS FROM IFO.

4. THE IFO "BUSINESS CLIMATE" INDEX PUBLISHED RE-

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BONN 09843 03 OF 03 101819Z
ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-07
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 IGA-02 DODE-00 PM-04 H-01
L-03 PA-01 PRS-01 FEAE-00 AGR-05 HUD-01 /106 W
-----101822Z 022993 /41

R 101800Z JUN 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8976
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION USBERLIN
USMISSION NATO
USNMR SHAPE

AMCONSUL FRANKFURT
AMCONSUL MUNICH
AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL HAMBURG
AMCONSUL STUTTGART
CINC USAFE RAMSTEIN
CINC USAREUR HEIDELBERG
CINC EUR VAIHINGEN

LIMITED OFFICIAL USE SECTION 03 OF 03 BONN 09843

GULARLY AND NOTED ABOVE NOW INCLUDES SOME IMPORTANT INDUSTRIES SUCH AS IRON AND STEEL AND CHEMICALS OMITTED IN AN EARLIER VERSION OF THE SERIES. LOOKING BACK TO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BONN 09843 03 OF 03 101819Z

THE LAST CYCLICAL DOWNTURN IN 1974, THE BIG SEPTEMBER TELLTALE DROP OF EIGHT POINTS IN THIS INDEX HAS NOT SO FAR BEEN DUPLICATED. HOWEVER THE FIVE MONTHS OF GRADUAL DECLINE WHICH RAN FROM APRIL THROUGH AUGUST OF THAT YEAR HAS A SOMEWHAT PARALLEL PATTERN IN THE DECEMBER 1976 THROUGH APRIL 1977 DATA AND UNDOUBTEDLY UNDERLIES MUCH OF IFO'S PESSIMISM. THE MAY PERFORMANCE OF THIS INDICATOR (AS WELL AS THAT FOR THE "BUSINESS SITUATION"), WHICH WILL NOT BE AVAILABLE FOR ANOTHER MONTH OR SO, COULD BE PARTICULARLY SIGNIFICANT INsofar AS FORECASTING THE FUTURE COURSE OF THE BUSINESS CYCLE IN GERMANY IS CONCERNED.

5. IFO HAS ANOTHER INTERESTING INDICATION IN ITS INDUSTRIAL CAPACITY UTILIZATION SERIES (SEASONALLY-ADJUSTED) WHICH REFLECTS A VERY SIZEABLE 3 POINT PLUS DROP IN APRIL COMPARED TO JANUARY. IN FACT, THERE HAS BEEN NO COMPARABLE MAGNITUDE OF DECLINE SINCE THE MID-1974 CYCLICAL TURNING POINT, AS THE FOLLOWING TABLE SHOWS.

	JAN	APRIL	JULY	OCT
	---	-----	-----	----
1974	84.0	83.1	80.8	78.8
1975	77.3	76.2	76.3	78.4
1976	80.2	82.2	81.8	82.6
1977	83.5	80.0		

THE MAXIMUM UTILIZATION IN THIS SERIES WAS 92.1 REACHED IN JANUARY 1970. THE AVERAGE UTILIZATION OVER THE FOUR

YEAR PERIOD 1970-1973 WAS 87.6. QUITE ASIDE FROM POSSIBLE TURNING POINTS, THE CURRENT LEVEL OF UTILIZATION IS ONLY FOUR POINTS ABOVE THE RECESSION LOW-POINT AND IS 7-8 POINTS BELOW WHAT IFO CONSIDERS "NORMAL." DESPITE SOME SECTORAL UNEVENNESS (WHICH HAS ALWAYS EXISTED) WHEREIN CERTAIN INDUSTRIES SUCH AS AUTOS ARE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BONN 09843 03 OF 03 101819Z

NEAR MAXIMUM, THE MACRO PICTURE OF STILL QUITE LOW CAPACITY UTILIZATION CAN BE SEEN AS A DEFINITE RETARDANT TO THE NEEDED GROWTH IN PRIVATE INVESTMENT.

6. BUNDESBANK PRESIDENT EMMINGER, LIKE DIW, IS MORE OPTIMISTIC. POINTING TO THE ROUGHLY 4 PERCENT (SAAR) REAL GROWTH DURING THE FIRST QUARTER AND THE INCREASED DEMAND FOR BANK CREDITS, AS WELL AS SCATTERED OTHER (UNSPECIFIED) INDICATORS, HE TOLD THE PRESS THAT HE FELT THAT THE UPWARD TREND HAS CONTINUED INTO THE SECOND QUARTER AND POSSIBLY EVEN ACCELERATED SOMEWHAT. HE CONCLUDED THAT THE AIM OF 4.5-5.0 PERCENT GROWTH OF 1977 GNP OVER 1976 IS CERTAINLY NOT YET OUT OF REACH.
STOESSEL

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC GROWTH, INDUSTRIAL PRODUCTION, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 10-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BONN09843
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770208-0123
Format: TEL
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770671/aaaacjqk.tel
Line Count: 359
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 9b05ee7f-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2205647
Secure: OPEN
Status: NATIVE
Subject: WHERE IS THE BUSINESS CYCLE HEADED?
TAGS: EFIN, GE
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/9b05ee7f-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009